AUDIT COMMITTEE

Wednesday 12 March 2008

Session 3

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2008.

Applications for reproduction should be made in writing to the Licensing Division,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR Donnelley.

CONTENTS

Wednesday 12 March 2008

AUDIT COMMITTEE
5th Meeting 2008, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Claire Baker (Mid Scotland and Fife) (Lab)
*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*George Foulkes (Lothians) (Lab)
*Jim Hume (South of Scotland) (LD)
*Stuart McMillan (West of Scotland) (SNP)
*Andrew Welsh (Angus) (SNP)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
James Kelly (Glasgow Rutherglen) (Lab)
Iain Smith (North East Fife) (LD)
Sandra White (Glasgow) (SNP)

*attended

THE FOLLOWING GAVE EVIDENCE:

Professor John Baillie (Accounts Commission)
John Connaghan (Scottish Government Health Delivery Directorate)
Caroline Gardner (Audit Scotland)
Paul Martin (Scottish Government Chief Nursing Officer Directorate and Health Workforce Directorate)
Gordon Smail (Accounts Commission)
Alex Smith (Scottish Government Health Finance Directorate)
Kevin Woods (Scottish Government Health and NHS Scotland)

CLERK TO THE COMMITTEE

Tracey Reilly

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Rebecca Lamb

LOCATION

Committee Room 5

Scottish Parliament

Audit Committee

Wednesday 12 March 2008

[THE CONVENER *opened the meeting at 09:45*]

Decision on Taking Business in Private

The Convener (Hugh Henry): Good morning and welcome to the fifth meeting in 2008 of the Audit Committee. I welcome members of the public, press and Audit Scotland. I ask everyone to ensure that mobile phones are switched off so that there is no interference with the electronic equipment.

Do we agree to take agenda item 5 in private?

Members *indicated agreement*.

Section 22 Report

"The 2006/07 audit of Western Isles Health Board"

09:45

The Convener: Under agenda item 2, we continue our deliberations on the section 22 report on the Western Isles Health Board. From the Scottish Government, I welcome Kevin Woods, chief executive of NHS Scotland and director general health; Alex Smith, director of the health finance directorate; and Paul Martin, from the chief nursing officer directorate and interim director of the health workforce directorate.

I want to put on record an issue that arose at our previous meeting. I draw members' attention to statements that were made by Dick Manson and David Currie in relation to the Cook report. Both witnesses denied any knowledge of that report. We have been able to determine subsequently from Western Isles Health Board that such a report exists. We will consider that report, which we have now obtained, later in private. The evidence that we heard from both those witnesses was not accurate, and they have written to us subsequently to confirm that they were aware of the Cook report.

I also put on record that Trevor Jones is unable to attend today's meeting because of a prior commitment that could not be rearranged. We will have an opportunity later to decide how to deal with that matter.

I invite Dr Woods to make a brief opening statement. Will you also tell us whether you have read Mr Manson's and Mr Currie's evidence from our previous meeting and whether you have any comments on it?

Kevin Woods (Scottish Government Health and NHS Scotland): I do not intend to make lengthy comments at the outset; we are here to answer any further questions that the committee might have. Since we last appeared before the committee in Stornoway on, I think, 11 January, we have corresponded. I wrote to the convener about requests for additional funding. We have looked into the matter as thoroughly as we could and, so far, we have been unable to identify any written requests for additional funding, with the exception of one request for some non-recurrent help in one year. That request arose as a consequence of correspondence between the board's director of finance and the deputy director of finance in the Health Department. I set that out in my correspondence to the committee, and I hope that members found the clarification helpful.

You asked me to comment on the evidence of Mr Manson and Mr Currie—that is a wide-ranging question. Perhaps when we engage in discussion of more specific questions, I might have some observations on specific points. For instance, if you were to ask me about the Cook report, I would say that it is evident from the material that has been seen subsequently that the witnesses were indeed aware of the report, as was the whole board at the end of June 2006.

The Convener: Thank you for the range of written evidence that you have given us over the past few months, which has been helpful, comprehensive and well set out. The committee has found your responses to a number of our questions helpful.

In a recent piece of correspondence, you refer to a drawdown of £250,000 of which you were not aware. Is that normal procedure?

Kevin Woods: The allocation was discussed in correspondence between the Health Department's deputy director of finance and the board's director of finance. It is possible for officials to make such allocations. There was consultation on the issue with Alex Smith, the Health Department's director of finance; Mr Smith may want to comment further.

Alex Smith (Scottish Government Health Finance Directorate): When I returned to the office to pursue the matter, I identified that the director of finance at Western Isles Health Board had made a request to the deputy director of finance at the Health Department. The request was for assistance of a special nature relating to staff costs in the board's finance directorate, not for recovery of debt or for a general increase in the allocation. The deputy director decided that it was appropriate for the Health Department to provide that support, because the costs in question were unusual and non-recurring. We did so within the departmental rules for such allocations and from funding that was available in the contingency fund.

Kevin Woods: When I gave evidence to the committee on 11 January, I indicated that it is within our normal procedures for us occasionally to make non-recurring allocations to boards. Such allocations are of the nature that Mr Smith described, although they need not be for the specific reasons that he has given. Had we been aware of the correspondence on 11 January, we would have told the committee about it.

The Convener: The evidence that we have received indicates that someone with financial expertise was appointed on a temporary basis, until, I think, April or May 2006. Is that correct?

Kevin Woods: Yes. The gentleman's name was Murdo McDonald. I hope that I have pronounced it correctly.

The Convener: Clearly, the Health Department's concerns were sufficient to justify the appointment for a period of someone with specific expertise.

Kevin Woods: The appointment was made in response to a request for additional support from Western Isles Health Board. Our assistance was sought because the then director of finance, Donnie MacLeod, had moved to a risk management position within the board. Mr McDonald was identified as someone who was able to provide that support and who was willing to go to the Western Isles. Mr Smith can provide the committee with further details.

Alex Smith: We received a request for assistance at the time when a new finance director was being identified and recruited. That person started work at the beginning of the following financial year. The arrangement was to provide cover for the period between Donnie MacLeod's move to his new post and the appointment of the new finance director. Murdo McDonald was recruited as head of finance, rather than director of finance, but in time his duties became akin to those of a director of finance. However, the appointment was for a very short time.

The Convener: It intrigues me that the request was of sufficient significance for you to agree to it, at a time when change to "the board's financial position was deteriorating rapidly." Someone was put in place, with your agreement, but nothing seems to have been done at your level.

Kevin Woods: I am not entirely sure what happened in the department at that time—it predates me.

The Convener: When did you start?

Kevin Woods: At the beginning of 2005, so these—

The Convener: With all due respect, Dr Woods, that person would have been in post up until April or May 2006. Someone was therefore in post, with your agreement, for about a year or a year and a half while there was a seriously deteriorating financial situation about which nothing seems to have been done.

Kevin Woods: If I may, convener, I would like to check the dates in that regard. My recollection is that a new director of finance was appointed and took up post early in 2005. We were concerned about the deteriorating financial situation, but the person from the Health Department, as it was then, was seconded in, I think, late 2004. Mr Smith may be able to quote the precise date.

The Convener: That is correct, but that person stayed until April or May 2006. Is that not correct?

Alex Smith: They were there for only about five to six months.

The Convener: So they were not there until 2006.

Alex Smith: No.

The Convener: Categorically, they were not there until April or May 2006.

Kevin Woods: Our understanding is that they were there for only about six months between the end of 2004 and the beginning of 2005. However, because of how you have posed the question, I would like to double check exactly when Mr McDonald left the island. The crucial point is that Mr McDonald was made available to the board to help with the transition from the previous director of finance to the incoming director of finance, who took up post in the early part of 2005. That is my understanding, but we will check all those facts.

The Convener: Okay.

Alex Smith: Having just looked at the correspondence, I can confirm that that is correct. He was there for six months, to April 2005, which was when the new finance director took up post. It was a temporary attachment.

The Convener: My apologies, and thank you for that helpful clarification.

George Foulkes (Lothians) (Lab): In the evidence that we took from Mr Manson and Mr Currie, a point arose about the Cook report. That has now been corrected, but there is another area that I am still unsure about. I refer to the circumstances surrounding the departure of Mr Currie and Mr Manson in their roles as chairman and chief executive. Can you enlighten us about that?

Kevin Woods: Mr Currie tendered his resignation. He had obviously found the period up to the point at which he resigned increasingly demanding. He chose to resign, and the minister accepted his resignation. I would need to check the precise dates in the files to tell you when that was. However, he surrendered his office.

Mr Manson had intimated at some point in 2006, although I cannot remember when, that he would like to move on. It was a general conversation about how things were and how he felt about the future. I think that he recognised that the situation was difficult and that the kind of improvement that was required was not being achieved. We were all concerned about where the Western Isles was at.

George Foulkes: Who was that "We"?

10:00

Kevin Woods: Officials in the department. All of us in the department were concerned that the kind of improvement that we had wanted to see in the Western Isles, following the review in September 2005 that the minister chaired and which had assured us that various things would happen, had not happened.

Towards the end of my evidence to the committee in Stornoway, I indicated that, by the middle of 2006, it was becoming evident that, despite the considerable efforts of Mr Martin in trying to improve the industrial relations climate and partnership working, such improvements were not occurring. Mr Martin can elaborate on that if the committee would find it helpful. Issues in the board were spilling over into the public domain and the weakening of proper governance processes was hindering appropriate financial recovery.

George Foulkes: I put it to you that the minister asked you to require Mr Manson to give up the post. Is that not the truth?

Kevin Woods: All of us could see that the situation was not improving. Mr Manson indicated that he would like to find a way of moving on. I was happy to try to arrange that and I had identified some work that might be suitable for him to do.

George Foulkes: Football chairmen say that a manager left by mutual consent, which usually means that he was sacked. Did Mr Manson leave by mutual consent?

Kevin Woods: Ronnie Cleland, the interim chair, presented the proposal for Mr Manson's secondment to the board's remuneration committee and the committee supported the proposal. I believe that the secondment was then formally approved by the whole board.

Mr Martin may want to comment, but at that point, we had to reflect on the position of the board as an employer and the alternatives that it faced in terms of the future of one of its employees.

George Foulkes: So he left by mutual consent.

Kevin Woods: Yes.

George Foulkes: He was sacked.

Kevin Woods: No, he was not sacked. Perhaps Mr Martin will explain the employment legislation and our procedures.

Paul Martin (Scottish Government Chief Nursing Officer Directorate and Health Workforce Directorate): It is important to recognise the responsibility of the board as the employer. The board has the responsibility to investigate and/or determine any concern that it has for any employee, whether or not they are the chief executive.

The board faced the introduction of a support team, which meant someone—Malcolm Wright—playing the chief executive support role. In effect, two people were involved and it became clear to all concerned that having two people in the role was difficult and would become increasingly difficult.

As Dr Woods suggested, Mr Manson was seeking an opportunity to move on from the Western Isles. One route was for him to secure an opportunity elsewhere. The board did not instigate, and has not instigated, any proceedings against Mr Manson of which we are aware that constitute a termination of his employment.

George Foulkes: A range of things, including the community care arrangement with Western Isles Council and the recovery plan, was not done. When Malcolm Wright and the interim team took over, those things were undertaken immediately. Does not that indicate that Mr Manson was not doing his job properly?

Kevin Woods: It is undoubtedly the case that the situation in the middle part of 2006 was unsatisfactory. We were not seeing the progress that we wanted to see. Nobody disputes that; we are clear about that. We had concerns, and I think that the board had concerns. Many of the issues were played out publicly in the press. No one could have been happy with the situation in the Western Isles Health Board in the middle of 2006.

The point that is being made, quite separately, is that the health board, as employer, did not, as far as we know, take any action concerning performance or discipline in relation to Mr Manson at the time. Although the board subsequently commissioned audit reports, which have raised questions, and although it is discussing them with Mr Manson, it is still up to the board to consider whether disciplinary action should follow for any official who is working for the board, including Mr Manson. As far as I am aware, it has not done that.

The Convener: I have two questions that follow from what you have said. First, had the minister not encouraged you to consider a mutual consent solution, would that have been done anyway?

Kevin Woods: The situation was becoming untenable. Once we had decided to put in the support force and had identified an incoming chief executive, whom we wanted to be the accountable officer, it was not possible in any practical sense for two people to be in that position. Clarity was needed about who was in day-to-day charge of the board. I think, therefore, that that would have happened once the decision had been made that the support force needed to be put in place. The fact that Mr Manson had indicated previously that he thought that it would be desirable for him to move on to some other opportunity enabled that to happen.

The Convener: My second question concerns that specific point. Mr Manson had indicated that he wanted to move on to another opportunity. You said earlier that things were becoming unsatisfactory in 2006 under Mr Manson's leadership—I added the words "under Mr Manson's leadership" to put what you said in context. The situation was becoming unsatisfactory while Mr Manson was leading Western Isles Health Board. You also said that no one could have been happy with the situation. Given that, were you satisfied that Mr Manson's performance was good enough to justify his appointment to a very senior position in the health service elsewhere in Scotland? Do you have absolute confidence in his ability given that, in 2006, the situation was becoming unsatisfactory and no one could have been happy with it?

Kevin Woods: My comments about the situation with the board relate to the whole board, including Mr Manson. It is important for the committee to understand that the problem was widespread. We were not happy because we were concerned about the functioning of the board and its business being played out in public in a damaging way. The auditors commented on that in 2006—that was itself becoming a problem for achieving recovery.

Lord Foulkes mentioned the community health and care partnership. We were concerned that progress was not being made in that direction. There were many dimensions to the matter. We were concerned about the partnership working that was not taking place. At that point, the secondment arose.

The question is perhaps best put by asking what our view is of the way in which Mr Manson has performed with the responsibilities that he has had since he moved. As far as I am aware, no concerns have been expressed about the quality of his work or performance in that role.

The Convener: I beg to differ. Notwithstanding what you say about the performance of the whole board, Mr Manson was the chief executive. You said that the situation was unsatisfactory and that no one could have been happy with it. Presumably, conclusions would have been drawn about the collective leadership of the board and the leadership of individuals. Were you satisfied at the time that Mr Manson's performance was such that it gave you confidence to appoint him to a senior position elsewhere in the national health service?

Kevin Woods: The formal assessment of Mr Manson's performance would have rested with the chair and the board. If they had consulted me, I

would have given them my views and expressed my concerns about that. I was content that in moving to this secondment, Mr Manson would be able to undertake the duties that he has. In applying for any subsequent position, he would have to be assessed fairly and properly against the job description, the candidate specification and the qualities of the other people who would apply. I am not sure that I can answer the question in the way that you have posed it.

The Convener: Okay. Do you accept that there is a perception—certainly in relation to the department and possibly in relation to other branches of the civil service—that when someone is failing in one position, the system for dealing with them is to move them to another senior position, rather than address the specific problem? I refer not specifically to Mr Manson, but to the situation in general.

Kevin Woods: That perception may exist. The issue that arises is what the process has been within an employer in respect of dialogue with an employee about performance. Before anyone reaches any conclusions about the performance of an individual, we must be satisfied that there has been a clear set of objectives and proper dialogue about performance. If people are failing—to use your word—in some aspect of performance, we have to be satisfied that they have been given an opportunity to address that and that there have been development opportunities and so on. The responsibility rests with the employer. In this case, the employer did not take any action in relation to Mr Manson's performance.

Murdo Fraser (Mid Scotland and Fife) (Con): Have you experienced working in the private sector?

Kevin Woods: No.

Murdo Fraser: Would you not regard it as extraordinary if a senior executive in the private sector who was not performing his job properly was moved to a better-paid position within his organisation, rather than being dealt with? That would be regarded as extraordinary in the private sector. Why is it regarded as acceptable in the public sector?

Kevin Woods: Both sectors are governed by appropriate legislation in relation to employment matters. On all the employment issues that arose in the Western Isles, we took great steps to ensure that the board was complying with legislation and the framework that we have put in place through staff governance to ensure that people's performance and assessments are managed properly. We received assurances about that in relation to the Western Isles.

I am not sure that I can comment on practices in the private sector, because, as you ascertained, I have not worked in the private sector. We operate within the framework for the public sector, and the NHS in particular, and within the legislation. We did what I believe was right. We sought assurances from the employer that it was managing all the issues in accordance with public sector practices. We went to some length to satisfy ourselves about those things. For instance, in April or May 2005—a few months after I had taken up position and had become aware of some discontent—I asked Mr Martin to go to the Western Isles to satisfy himself that the proper procedure was being followed. Mr Martin can elaborate on that. That led to a period of sustained engagement over the following year. In general, the assurances that we received were that the procedures were being followed.

Jim Hume (South of Scotland) (LD): I was concerned that Mr Manson went on neatly to a rather well-paid job in the NHS. Were you aware that Mr Manson had faced a vote of no confidence in Carstairs and that he faced a vote of no confidence in the Western Isles, which included a public vote of no confidence? Was that not taken into account when you gave him his new position?

10:15

Kevin Woods: I was certainly aware of the vote of no confidence in the Western Isles, which extended to Mr Currie and the medical director. I do not know whether there was a vote of no confidence at the state hospital. My recollection of Mr Manson's evidence is that there was no such vote.

Jim Hume: No; I recall that he admitted that there was. I see that Mr Martin is also denying that there was such a vote. We can read the *Official Report* to check whether Mr Manson admitted to there being a vote of no confidence in him at Carstairs.

Kevin Woods: Perhaps we can check the *Official Report*. Again, I repeat that we were faced with a situation in the Western Isles in which the employer had not taken any performance or disciplinary action against Mr Manson—

Jim Hume: You keep referring to the board, but we are talking more about your responsibilities, Mr Woods.

Kevin Woods: I am very happy to accept my responsibilities, but I can discharge them only in the light of the formal evidence about the position of Mr Manson's then employer. Remember that the Western Isles Health Board remains Mr Manson's substantive employer. If it has concerns, whether they are about his performance at that time or disciplinary matters arising from that, it is still a matter for the board, which still has the power to raise those issues formally with Mr

Manson as his substantive employer. The fact that he is on secondment has not removed him from proper scrutiny of his performance at that time by his employer.

George Foulkes: Do you know of any other health board in Scotland in which there has been a similar vote of no confidence from the staff in the chairman and chief executive?

Kevin Woods: I cannot recall one.

George Foulkes: I cannot either; I think that it is unprecedented. I can find no one who knows that it has happened anywhere else.

Andrew Welsh (Angus) (SNP): What is the role of the department in protecting the public interest by securing good governance? You said that the department moved in when the situation became untenable, but prior to that you said, in relation to whether Mr Manson was employed, that the department took a hands-off approach and that it was up to the board to deal with matters. However, it was clear that the board of management was in deep financial and organisational turmoil. What exactly is the department's role in ensuring good governance and financial management? Is it a hands-off role or do you intervene?

Kevin Woods: I begin by quoting from the *Official Report*, which has just been passed to me. When Mr Manson was asked about votes of no confidence at Carstairs, he said:

"During my time at Carstairs, when I was promoting change and forcing it through, votes of no confidence were threatened on several occasions. However, there were no votes of no confidence during my time there."—[*Official Report*, *Audit Committee*, 27 February 2008; c 379.]

That is what I recalled in answering the previous question.

The department takes a close interest in the issues to which Mr Welsh refers. As I said, when discontent reached my ears in the spring of 2005, I asked Mr Martin—who might wish to elaborate on this—to go to the Western Isles to satisfy himself that the proper procedures were being followed.

In the autumn of 2005—I referred to this in my previous evidence—I sought written reports from all my people who were engaged with the Western Isles so that we could make a comprehensive and careful assessment of where the board was at at that time. Our decision was that we should pursue the issues of governance, financial control and so on at the accountability review, which took place in September, if I recall correctly. On that occasion, we put the issues squarely on the table and made our position clear. The process of engagement that Mr Martin led continued over the intervening months. However, as I said earlier, it was evident by the middle of 2006 that the position was becoming unsustainable.

Paul Martin: I will give the committee a flavour of the level of engagement and, I hope, address the question of wider governance. As Andrew Welsh rightly pointed out, the role of the department generally is to pursue good governance within the NHS on behalf of ministers. Clearly, that covers the four domains of corporate, financial, clinical and staff governance.

I will run through my recollection of the chronology of my and my team's engagement with the Western Isles. I took over workforce responsibility in the department in April 2005, when I took on interim responsibility as director of human resources. We heard at that time about concerns around, in particular, the wider industrial relationships climate in the Western Isles. Staff organisations expressed concern not just about staff governance, but about HR processes that the board may have applied.

As I touched on earlier, the department needs to be careful about what it supports boards for and how it supports them, particularly in relation to technical personnel issues. We cannot be seen to confuse the legal relationship between the employer and the employee—doing that would be in nobody's interest. Our job is to ensure the application of good policies and procedures that are recognised nationally through, for example, the partnership information network guidelines—we can share the guidelines with the committee—which are agreed in partnership with trade union and professional organisations across Scotland. We expect boards to practise through those guidelines, as a bare minimum.

In response to concerns that were expressed, I visited the Western Isles in July 2005 and spoke to a number of senior staff, including the chairman and the chief executive. I sought assurances in a number of areas; in particular, I sought assurances that the board was following due and agreed process. I got those assurances, and I followed that up with a letter to the chairman, David Currie, on 9 August, in which I set out the fact that he had given me those assurances and that we were dependent on them, as we had stated.

On 2 September, I received a letter from the chairman, giving me further written reassurance that the board was following the advice that they had got from their legal advisers. I wrote back to the chairman on 21 September reaffirming that that was my expectation. In any contact with any professional organisation or staff representative, my staff and I were clear that any anxieties or concerns needed to be expressed explicitly to the employer and handled through due and recognised process.

However, given that there continued to be concern, I sought further assurances from the board and, as has been touched on, received formal written correspondence from Brodies, the employment law legal advisers that served the board at the time. The legal advisers said that they were satisfied that they were competent to provide advice to the board, that the board was following that advice and that, in doing so, the board was complying with nationally agreed policies and procedures.

We had pursued a number of levels of detail, therefore, to assure ourselves that processes and procedures were being applied. It is not for us to interfere in any process; indeed, it is not for us to comment on the detail or outcome of any process.

Further to Andrew Welsh's comments, we worked with the board through the partnership support unit in the department. We tried to support the board in partnership with the employee director, who was a non-executive trade union and professional organisation representative on the board, to develop, promote and improve partnership working in and through the board.

In February 2006, we became aware that staff-side organisations were seeking, and had secured, a meeting with the chairman to express concerns around a number of issues, including some of the organisational changes that had been proposed through the board's clinical strategy, as it was called. We were advised by the trade unions of a vote of no confidence in the chairman, the chief executive and the medical director of Western Isles Health Board.

We worked with the chairman to encourage him to develop an action plan in response to the concerns that had been expressed by partnership organisations. We encouraged him from the very beginning to communicate with staff and staff-side organisations in a clear, positive and open way. In March 2006, the department was formally notified of the vote of no confidence and of the concerns among professional organisations over the leadership, in particular, of the three individuals whom I have identified.

In March 2006, I met the chair, the medical director and Mairi Bremner, who was one of the non-executives on the board, as well as the full-time trade union officials from the Royal College of Nursing, Amicus, as it was at the time—it is now Unite—and Unison. We discussed the concerns that had been expressed by the trade union officials in their correspondence with the board, which had been copied to the department. There was a series of concerns, not just about leadership but about some of the board's decisions and the way in which they had been taken.

At that meeting, it was agreed with the full-time trade union officers that we would propose a five-point plan to staff. The five-point plan effectively covered patient services, partnership working, service redesign, clinical strategy and wider engagement. At the meeting, I had on both my chief nursing officer hat and my workforce hat. Given the concerns that were expressed by the staff side around patient services, I instructed the chairman to undertake an immediate review of those concerns. It was agreed that Anne Thomson, the RCN full-time officer for the area, would be a partner in that review.

I met staff on 20 April 2006, at the request of staff and the staff-side full-time officers. There was an open and frank sharing of concerns about where the board found itself. I played those back at a meeting on 21 April, which was attended by the full-time officers, local staff representatives, the board chair, the medical director and so on. After that meeting, a statement went out agreeing to the implementation of the five-point plan, which was to be taken forward in partnership. That gave us some reassurance that relationships would be re-established on that basis, albeit that concerns and tensions would continue to exist. At that time, we advised the board that we would secure for it some senior HR support from a technically qualified senior personnel manager.

I indicated that I would revisit the board in July 2006 to reassure myself that it was taking forward the action plan. Carmel Sheriff, the performance manager for the board, and I visited the board on 20 July. It is a matter of public record that I was extremely disappointed with the progress that the board had made against the agreed action plan. That led into a whole series of events in July and August 2006, culminating in the introduction of the support team.

Andrew Welsh: In other words, it did not work.

10:30

Paul Martin: We tried to offer as much support as we could. It became clear that, collectively, the board was not responding to the challenges that we had placed—we did so explicitly—for it in the action plan. By then, we had a body of evidence that told us that it was perhaps time to take further action. As the committee knows, the form that that action took was the introduction of the support team. At that stage, our patience with the board was running out.

Andrew Welsh: Surely the objective was to secure financial and organisational competence. This is all about content and competence and yet all I have heard about is process and procedure. What was the department's role in turning things around? You were having those discussions—which do not appear to have produced much by way of results—and yet the reality was that a quarter of a million pounds of unallocated money

was given to the health board during that time of transition. The board had deep financial problems, which your department must surely have known about. Nothing that you have said addressed that. Were you are aware of the depth of the financial and organisational malaise? What did the department do about it?

Kevin Woods: We were aware of those things. We need to remember that the £250,000 related to a much earlier period than the one to which Mr Welsh refers. We were concerned. As I said, at the annual review on 12 September, we raised the issues and—

George Foulkes: In which year?

Kevin Woods: In 2005. We set the board a very clear set of objectives and held successive meetings in the early part of 2006. As the audit report for 2005-06 indicates in several places, we were not prepared to sign off the detail of the financial recovery plan. We were not satisfied that the content was sufficiently thought through or detailed enough to ensure delivery. That, too, was part of our dialogue with the board.

In other words, we had the board under very close scrutiny. We were trying to support it to overcome some of its governance issues. We were also trying to get it to come up with a realistic and deliverable set of plans but, by the middle of 2006, that was not achieved. Things had deteriorated to the extent that we did what we did.

Audit Scotland refers to some of that in its 2006 report. Although it recognises the continuing weaknesses in, for instance, internal control, it also notes that the board had made progress on a number of important areas. If committee members have not had an opportunity to study the report, it may be helpful for them to do so.

I do not want to diminish in any way the fact that we had serious concerns, but our first job was to try to restore the whole board to effective functioning. By the middle of 2006, when Mr Currie resigned, we decided to step in.

The Convener: You have spoken about your concerns, which developed over the piece, and you said that things had deteriorated to such an extent that you did what you did. You promoted the chief executive.

Kevin Woods: No. I do not believe that we promoted the chief executive.

The Convener: Was it a sideways move?

Kevin Woods: The chief executive was seconded to another position. He was not promoted.

The Convener: At the same salary or a higher salary?

Kevin Woods: I do not have the salary details at my disposal. It would have been a secondment on his Western Isles terms and conditions. Perhaps Mr Martin has more information.

Paul Martin: We have his salary range. My understanding is that he was seconded on the terms and conditions that he was on at the time, but we can check the detail for the committee.

The Convener: So his position was protected. Things had deteriorated to such an extent and yet his position was protected.

Paul Martin: He sought a secondment, which was to do a piece of work, as Dr Woods identified.

Mr Manson remains an employee of the Western Isles Health Board although—clearly—there is a commitment that he will not return. That was part of the remuneration committee's deliberations and it was agreed by and with Mr Manson. If, while he remains an employee of the Western Isles Health Board, the board determines that investigation and action are required, it is free to do so, as the employer.

Willie Coffey (Kilmarnock and Loudoun) (SNP): The public who are listening to this and the residents of the Western Isles must be increasingly horrified at how the situation is unravelling. Apparently, when Mr Manson and Mr Currie took up their posts, Western Isles Health Board was in surplus, but when they left their posts, there was a deficit that was approaching £3.5 million. For the chief executive then to be moved sideways—or promoted or whatever—will be regarded as incredible. Dr Woods, you said that that was entirely appropriate and within public sector framework guidelines and so on. However, if it was entirely appropriate, how on earth are we to restore public confidence that such a situation cannot happen again?

Kevin Woods: What I am trying to convey to the committee is that decisions about the board's employees are the board's responsibility, for which the board must have effective governance procedures. We stepped in and tried to ensure that proper governance procedures were put in place—I believe that that has increasingly been done.

It remains the case that Mr Manson is formally an employee of the Western Isles board. If the board reaches the conclusion, on the basis of the subsequent audit reports that have been received or the material that is being presented in evidence to this committee, that there is a case for Mr Manson—or, indeed, any other board officer—to answer, it is for the board to undertake that action in accordance with the law and the procedures that we apply in NHS Scotland. Those are the safeguards that the public has, and the procedures generally work extremely well across

NHS Scotland. I think that there is evidence to that effect in the overview report, which we will talk about later.

Nobody disputes the fact that the situation in the Western Isles was deeply unsatisfactory. However, as I said, our first effort was to try to restore effective governance. I repeat that issues relating to individuals remain a matter for the employer; if there are concerns about the conduct of an employee, even if they are on secondment, such concerns can be properly addressed by the employer.

The Convener: Can I ask you about your responsibilities as an employer? You have indicated clearly that Mr Manson remains an employee of Western Isles Health Board. As the employer of your staff, do you follow normal employment procedures and have fair and open practices?

Kevin Woods: I think that that is essentially a question about how the civil service conducts its internal work. The Scottish Government employs me and I am a member of the civil service, so is it a question about the civil service or a question about—

The Convener: You are also head of the health department. When posts become vacant in the department, do you advertise them internally or externally? Are all employees entitled to apply for such posts?

Kevin Woods: We have clear procedures in the civil service about the filling of posts, but we also have a large number of people on secondment in the health directorates. We find the interchange of people from the Scottish Government and the health service to be valuable to our work, given the nature of what we do.

The Convener: But in the health department—I am not talking about exchanges between the civil service and the health department—and in relation to your wider responsibilities, when senior posts become vacant, there is transparency and fairness, and anyone is free to apply for such posts and will be judged on their merits, without fear or favour.

Kevin Woods: Yes, that is indeed the policy.

The Convener: Was the post that Mr Manson was put into advertised? Were there a number of applicants?

Kevin Woods: No. We were in an extremely difficult position. We had put another chief executive into the Western Isles. The Western Isles had not pursued any action against Mr Manson. Mr Martin outlined the range of options that might have been available. Mr Manson recognised that it was time for him to go somewhere else and we recognised that that would be desirable. I acknowledge that, to that extent, the arrangement was specific to the circumstances.

The Convener: Was the post created for Mr Manson?

Kevin Woods: No. We had important work that we needed to do in relation to prison health services. That is the work that I had in mind at the time. It would be wrong of me to say that the post was advertised openly, because it was not. We were anxious to enable the Western Isles to move on.

The Convener: What criteria do you use when you decide that you do not need to advertise a post or seek competition?

Kevin Woods: In general, we do not make such decisions. I acknowledge that, in this situation, we proceeded in a way that enabled the Western Isles to move on.

The Convener: Do you have the absolute right and authority to do that with any post in your department?

Kevin Woods: Obviously, we discuss staffing matters and secondments. Opportunities arise at various times. We have internal processes.

The Convener: To whom are you accountable? I know that this did not happen, but suppose that, over the years, the head of any department in the civil service, such as your department, decided that people in different areas of responsibility elsewhere were not competent and that posts at headquarters would be created for them. They might even decide to bring in members of their golf club or social circle. That would be entirely acceptable because it would be up to the head of the department to make such decisions. Where are objectivity and responsibility in determining which posts are filled in that way?

Kevin Woods: The situation that you describe would not arise. I am ultimately accountable to the permanent secretary of the Scottish Government. I acknowledge that we faced an extraordinarily difficult situation. We decided that, given that Mr Manson had expressed an interest in a move—people express interest in moves on many occasions—it was in the interests of the service and the public in the Western Isles that we enabled him to move into a job that was concerned with long-term conditions and prison health services. Ideally, we would wish to make people aware of secondment opportunities. Generally, we want to ensure that posts are filled by a process of fair and open competition. We faced a wholly exceptional situation—there is no question about that. Mr Manson had expressed an interest in a move, we believed that there was useful work for him to do, and the Western Isles,

as his employer, had taken no action against him and had not set any procedures in train. Therefore, we took the only practical option open to us.

The Convener: Do such situations happen at all levels of the department and the health service? If someone is regarded as not fulfilling expectations and they express a desire to move elsewhere, will a post be found for them? Do they just happen at senior levels?

Kevin Woods: The employer in this situation had not reached a view about Mr Manson in the way that you suggest in your question. We want to ensure that boards operate in accordance with staff governance procedures. Secondments are a normal part of procedures. There is a suggestion that somehow we operate a system that may, to put it bluntly, reward senior managers for failure.

The Convener: God forbid that I suggested that. It is for others to draw that conclusion.

10:45

Kevin Woods: I think that that was the subtext. I reassure the committee that, in relation to the contracts of senior and executive managers in the health service, we have detailed and careful procedures in place for assessing individuals' performance through staff governance and remuneration committees. The performance assessments of individual senior and executive managers and the reports that come from remuneration committees are independently scrutinised at national level by a committee with an independent chair. That is all intended to ensure that our processes are fair to the employee and consistent across NHS Scotland. That is our general approach.

The Convener: That is fine. Forgive me if I suggested something about the process that was not there or did not happen, but let me clarify something. Mr Manson described his move as an opportunity, and I think that you did, too. Do all employees of the health department and of health boards, irrespective of their grade, have the same opportunities to move in the way that Mr Manson did?

Kevin Woods: I wonder whether I could ask Mr Martin to talk a little more about our secondment procedures.

The Convener: I am aware of the time, so please keep it short.

Paul Martin: Sometimes, people are unhappy in their job, or perhaps something impacts on their performance. In such cases, the employee can approach their employer and seek a move. That could mean a secondment, a move to another job or a temporary replacement, to allow them to create some space. It might be an opportunity for the employee to reflect on where their career is going.

The Convener: Essentially, that is available to anyone in the health department and anyone who is employed by a health board.

Paul Martin: Should they have the discussion as part of their personal development plan, the employee can avail themselves of such opportunities. Dr Woods has touched on, and you were pursuing, a unique situation in which the individual—

The Convener: I have moved on from that. I wanted to know that such opportunities are now available to anyone in the health department, and that they have been used by people of different grades. We can ascertain the details at a later date, but the principle has been established, so that is fine.

Paul Martin: I used such an opportunity, when I was a chief executive.

Stuart McMillan (West of Scotland) (SNP): I want to clarify a point that was made earlier. If Mr Manson is no longer working at the health board, but is still an employee of the health board and has been seconded somewhere else, on the understanding that he will not return to the health board, who is paying his salary?

Kevin Woods: The costs of Mr Manson's secondment are met by the health directorates. He is seconded to NHS National Services Scotland, which is a national organisation that undertakes a range of activities. The funds to pay the costs of his secondment come from the health directorates.

Stuart McMillan: So NHS Western Isles pays absolutely nothing towards his salary and costs.

Kevin Woods: Not at the moment. The board does not pay his costs. [*Interruption.*] My colleagues are saying that the board pays him, but that we put it in funds to enable that to happen. He remains an employee of the board.

Jim Hume: You mentioned that you had noticed a great deal of problems with corporate governance within the board, although either Manson or Currie told us that full corporate governance was maintained. As Willie Coffey mentioned, the board went from being in funds to being in a serious situation.

I might be labouring the point about Mr Manson's new position—he has been moved sideways, upwards or whatever—but was he at any point pursuing compensation for constructive dismissal? Was his move a way of negating that?

Kevin Woods: Not to my knowledge—I do not believe that he was.

Jim Hume: You do not think so.

Kevin Woods: No. I do not know whether Mr Martin knows more about that, but I am aware of no such claim.

Jim Hume: Do you admit that that would be a good reason to find him another job?

Kevin Woods: The issue was not on the table when we looked at the matter.

George Foulkes: I will follow up Stuart McMillan's point. Mr Manson remains an employee of Western Isles Health Board and the allocation to the board takes account of the cost of his salary. Laurence Irvine was appointed as chief executive, but I gather that he is suspended. Who pays his salary?

Kevin Woods: Mr Irvine's salary is being paid by Western Isles Health Board as his employer. To clarify the point, I ask Mr Smith to comment on the transfer of funds, so that we are in no doubt.

Alex Smith: The arrangement is not costing Western Isles Health Board anything, because the health directorates are refunding the full cost of Mr Manson's salary.

George Foulkes: So Mr Manson is still being paid out of the health board's account but, as Mr Smith said, the board is being refunded. Mr Irvine is on suspension and the board is paying his salary. Who pays the salary of John Turner, who is acting chief executive?

Alex Smith: Mr Turner is an employee of Western Isles Health Board.

George Foulkes: So Western Isles Health Board is paying three chief executives—

Kevin Woods: Excuse me, convener. Mr Martin may have more detail that will clarify the point for Lord Foulkes.

Paul Martin: To be clear, as Western Isles Health Board is in a unique situation because its substantive chief executive is suspended, we have seconded John Turner from his post as deputy director of workforce modernisation to the Western Isles. At the moment, our agreement with the Western Isles is that, until 31 March, the department will cover John Turner's costs.

George Foulkes: Dr Woods, you said that you wanted to enable the Western Isles to move on and we discussed that when we heard evidence from you in Stornoway, yet one chief executive is on secondment, one is suspended and the other is an acting chief executive. You are ultimately responsible for that. Is that not a guddle—a mess?

Kevin Woods: I agree. I wish that the situation were otherwise—there is no question about that. Discussing the circumstances that relate to Mr Irvine's suspension would be inappropriate. The board's chair has suspended him as a neutral act while an investigation is under way. In those circumstances, it is normal practice for the employer to continue to pay the suspended individual's salary.

As Mr Martin said, we are covering Mr Turner's costs, because of the extreme situation of the Western Isles, and we are also meeting Mr Manson's costs, so Western Isles NHS Board continues to pay only one chief executive's salary—I think that that is where your line of questioning started.

The sequence of events is clearly undesirable, but we are very encouraged by the progress that is being made in the Western Isles. The board's latest financial forecast is that it expects to break even this year and possibly to generate a small surplus. Mr Turner and the new chair are having a positive impact. I readily acknowledge that the sequence of events that unfolded was undesirable and unusual, but the good news is that the situation in the Western Isles is improving.

George Foulkes: Speaking personally and not on behalf of other committee members, I was impressed by John Angus Mackay and John Turner—the chairman and the chief executive—and by what they are doing. However, even if the board is not paying, we as taxpayers are in effect paying for three chief executives: one who is seconded; one who is suspended; and one who is—thankfully—doing a good job.

As the accountable officer for the health service in Scotland, ought you not to be doing something about that urgently? Have you drawn the attention of Nicola Sturgeon to the issue?

Kevin Woods: Ministers are well aware of the situation. The cabinet secretary conducted the annual review in Stornoway last year, when the situation was the same, so she is aware of it.

I am concerned, but what options are available to me? I must operate within the framework of employment law, and proceedings in relation to Mr Irvine are being conducted strictly in accordance with that framework. With regard to Mr Manson, given that, as far as I know, the board had not raised any issues to do with performance or discipline with him at the point of his secondment, the issue was dealt with as best it could be at the time.

Clearly, it would be much more desirable if the board were in the same situation as the other 21 accountable boards, which have a single chief executive working in a stable governance framework and getting on with business. I share your view of the contribution that the current chair and Mr Turner are making. I believe that they have done a tremendous job in beginning to turn round

the board's fortunes. As has been the case throughout, we are keen to provide them with all the support that we can. I have had a number of meetings with both men recently, I will have a further meeting with Mr Turner before Easter and I will go to the Western Isles shortly after Easter to see for myself the further progress that I hope will have been made.

The Convener: If Mr Manson's secondment ends or you decide that you do not wish to keep funding it, will Mr Manson return to the Western Isles NHS Board?

Kevin Woods: It was agreed at the time of the secondment that he would not return there. Between now and the end of his secondment, discussions will have to take place between the board, Mr Manson and, no doubt, ourselves about his future.

The Convener: So, in other words, something will be found rather the issue being brought to a head.

Kevin Woods: I am not saying that, convener. I am saying that there will need to be a series of discussions, which will be informed by any conclusions that Western Isles NHS Board reaches on the basis of the audit reports that it has commissioned and by the evidence that has been presented to the Audit Committee and any conclusions that it comes to. Decisions will have to be made at that point, when due regard will have to be paid to the interests of the board, the health service and Mr Manson.

Andrew Welsh: You mentioned that the board expects to break even and might even make a small surplus this year. Were you simply quoting Mr Manson's contention of 27 February or do you have other evidence for that forecast?

Kevin Woods: Mr Manson's contention?

Andrew Welsh: Yes. On 27 February, Mr Manson told the committee that the trend was improving, the deficit was reducing and break-even would be achieved in March.

Kevin Woods: Mr Manson said—

Andrew Welsh: I beg your pardon—I have got the wrong date.

On what is your forecast based? Such forecasts have been made before—for example, Mr Manson made one that did not materialise.

Kevin Woods: Oh, I see. I was talking about the current forecast position. I invite Mr Smith to elaborate on why we believe that—

Andrew Welsh: What is the basis of that forecast?

Alex Smith: We are now nearly in the middle of March of the financial year 2007-08, so we are obviously better placed to give a year-end forecast.

We are in constant dialogue with the finance director and the acting chief executive of NHS Western Isles. We receive evidence from them monthly and we regularly examine the detail. We are satisfied that the year-end forecast will be delivered. I emphasise that we have virtually reached the end of the financial year, which gives us a great deal more confidence in the figures.

11:00

Andrew Welsh: A similar forecast in the past did not materialise.

Murdo Fraser: I will ask about the history of the Scottish Executive Health Department's involvement with NHS Western Isles during the period when the deficit accumulated. Am I right in saying that Dr Woods took up appointment as accountable officer for the NHS in Scotland early in 2005?

Kevin Woods: That is correct.

Murdo Fraser: When you took up your appointment, were you made aware that there was a situation in NHS Western Isles, or did that develop later?

Kevin Woods: I was aware of the overall financial position of the health service, including in the Western Isles. During my second week in post I attended a meeting of the Parliament's Audit Committee, to discuss the Auditor General's overview report on the NHS in Scotland. Big issues in the report were the reliance of a number of boards on non-recurring resources to achieve in-year financial balance, and the serious deficits of some boards, in particular NHS Argyll and Clyde, which were a problem. To that extent, I was aware of the issue.

We set about trying to reduce reliance on non-recurring resources and trying to reduce the deficits. The Auditor General's most recent report, which the committee will discuss later in the meeting, indicates that we achieved those aims. The problem has undoubtedly been NHS Western Isles. We have not managed to resolve the problem until this year, when it looks as though we will achieve in-year balance.

In response to the question, I should have said that increasingly we expect the board to provide us with details of its plans to achieve recurring balance, which is the real objective. The board is committed to presenting us, by July, with details of a plan that brings together the clinical strategy for the Western Isles and its finance plans, which is crucial. That, in part, is the purpose of my next

meeting with Mr Turner and my proposed visit to the Western Isles in April.

Murdo Fraser: The news that you think that the board is on track is welcome, but I am trying to get to the bottom of how the accumulative deficit arose. You said that you were aware that there was a problem. To what extent were you and the department proactive in trying to address the problem in NHS Western Isles? To what extent did you rely on assurances from the chief executive and the board that they were addressing the problem?

Kevin Woods: We take a combination of both approaches, in that we rightly interrogate boards' proposals for how they will achieve balance and overcome deficits, but we also rely on the assurances that we get from the leadership. That is inevitable, given that we deal with 22 accountable bodies.

As Mr Martin said in relation to employment matters, we received assurances from the chair, the chief executive and the director of finance that they were making improvements. However, internally, Mr Smith's team considers proposals carefully. On occasion, we have not found the proposals from NHS Western Isles to be acceptable, for example in 2006, when we were not prepared to sign off proposals in the local delivery plan, because we did not believe that the board could demonstrate that it could turn its good intentions into savings. We test proposals proactively, but we rely on boards to generate plans. We try to make suggestions and to offer advice and support. We continue to do that for NHS Western Isles.

Murdo Fraser: I have one more question, which is about financial support for the Western Isles. You mentioned the non-recurring allocation of £250,000. As far as you are aware, is that the only non-recurring allocation that has been made to the Western Isles in your period as accountable officer?

Kevin Woods: You ask whether that was the only non-recurring allocation. We make non-recurring allocations to all boards for numerous purposes so, to the extent that we make non-recurring allocations—

Murdo Fraser: I am talking about additional non-recurring allocations.

Kevin Woods: Beyond those that we made to other boards?

Murdo Fraser: Indeed.

Kevin Woods: I am not aware of any other allocations. Is Mr Smith aware of any?

Alex Smith: Is Mr Fraser's question really whether we were asked to contribute towards meeting the accumulated debt or the overall financing of Western Isles Health Board, rather than to provide targeted non-recurring funding for waiting times initiatives or a host of items that are part of our normal business? If so, the answer is that I have been unable to identify anything other than what we have reported to the committee.

Murdo Fraser: So no money was paid. Are you aware of requests from the Western Isles for additional funding?

Kevin Woods: No.

Alex Smith: No.

Murdo Fraser: When Mr Manson gave evidence to us two weeks ago, he said:

"in October 2003, David Currie and I had"

a

"discussion with Trevor Jones—then the chief executive of NHS Scotland—and his colleagues. I had discussions in later years with the finance director and the deputy finance director about NHS Western Isles getting additional money to see it through. The consistent answer was, 'No, but we can, perhaps, help with some brokerage, to recognise the fact that it will take more than a year to tackle the underlying issues.'"

The convener asked whether anything had been put in writing, and Dick Manson replied:

"I do not think that I ever made a formal written request."—[*Official Report*, *Audit Committee*, 27 February 2008; c 395.]

Are you telling me that you are not aware of any discussions with the Western Isles chief executive about additional funding?

Alex Smith: I took up my post in January 2006. I reported more or less the same position at the committee's meeting in January in Stornoway: I was not personally asked in the terms that I have just described to you. In our search of the files, we have not identified written evidence to support the point that was made.

The Convener: Has anything not been covered? The discussion has been long and exhaustive.

George Foulkes: I have one question about the accumulated deficit that I asked Dr Woods in Stornoway. To enable the Western Isles to "move on"—that is your phrase—how will you deal with the accumulated deficit? Will you write off any of it?

Kevin Woods: As I said in my previous evidence—forgive me if I repeat it, but it describes the position—our first objective is in-year balance and our second objective is recurring balance. We are thinking about the accumulated deficit, but we are proceeding in that sequence.

We do not usually write off an NHS board's accumulated deficit. Our normal practice is to provide a board with brokerage such that it can repay the debt over a period. We do that because if every time somebody got themselves into a financial difficulty, they thought that they would receive an additional allocation from the health department to help them out, that would not be consistent with good financial management.

The answer to your question about whether we will write off any of the deficit is that, to my recollection, we have done that in only one case—that of Argyll and Clyde NHS Board, to which I referred in my previous evidence. Our general approach would be to proceed with brokerage, as we have with other boards.

George Foulkes: Time has moved on since we were in Stornoway. There has been a lot of mismanagement, as we have been exploring, some of the culpability for which rests with your department; not all of it lies with the board. You should take responsibility for some of that, by enabling the board to move on. It should not be hampered by having to pay off an accumulated deficit that makes it difficult to run its range of services, in a remote area, in the proper manner. Is that not a reasonable proposition?

Kevin Woods: As I said before, Western Isles Health Board receives a level of funding that is unusually high in comparison with that received by other boards. If we were to provide it with additional funds, somebody else would have to go without. We would entertain the proposition only if we were convinced that it was the right way in which to proceed.

Our starting point is to think about brokerage. At all times, whether we are talking about brokerage or a write-off, we would want to be satisfied that sustainable plans were being put in place. If we proceeded without having such plans in place, I suspect that you would rightly criticise us for making an allocation without apparent justification.

You said that the department bears some responsibility in all of this. That judgment is one for you and the committee to make. Throughout our engagement with the Western Isles Health Board, we have striven to restore effective governance, and that continues to be our policy. I am glad to say that it looks as if we are beginning to get there, although I would much prefer that to have happened sooner.

The Convener: On that positive note, I draw the session to a conclusion. I thank Dr Woods, Alex Smith and Paul Martin for their evidence. I will allow time for Mr Martin to leave the table and for John Connaghan to join us.

"Overview of Scotland's health and NHS performance in 2006/07"

11:14

The Convener: Under item 3, we will hear evidence from Dr Kevin Woods, Alex Smith and John Connaghan. I ask Dr Woods to make a brief introductory statement.

Kevin Woods: I welcome the Auditor General's report and his assessment of the progress that NHS Scotland has made against the top priority targets for 2006-07. The report reflects positively on staff in the health service who must take the credit for this record of progress and improvement.

A key example of that impressive performance is, of course, the unprecedented reductions in waiting times. The reductions have been maintained since the period that is covered by the report and are planned to fall further over the next three years.

11:15

As the committee will know, we set out NHS board performance targets in a framework called HEAT, which covers health and health inequalities, efficiency, access and treatment, including quality measures. We believe that establishing and maintaining such rigorous and systematic targets and reporting on boards' performance against them are important in encouraging better performance. The HEAT framework also provides the basis for boards and the Government to account to the public and the Parliament for performance. Indeed, the Auditor General was able to use the HEAT framework in reviewing and commenting on NHS performance in 2006-07.

On financial performance more specifically, I was pleased that the Auditor General's report acknowledged that NHS Scotland is in an improved financial position and that boards have significantly reduced the use of non-recurring funding to meet their financial targets.

Under the 2007 spending review, health spending will increase by an average of 4.1 per cent over the next three years. We have set out our detailed spending plans in the budget, which is designed to support the achievement of the Government's strategic objective for health. "Better Health, Better Care", which was published in December, describes the Government's priorities, which are to improve health, to reduce health inequality and to improve the quality of care to patients, including shorter waiting times.

We have significantly developed the HEAT core set of targets for 2008-09 to reflect new priorities. For the first time—this will be of interest to the committee—HEAT targets link with the new national performance framework, which sets out the new Government's purpose as described in the budget document in November. The committee will be aware that the national performance framework includes seven high-level targets—one of which is for longer, healthier lives for people in Scotland—and a total of 15 national outcomes. The revised HEAT targets for the coming year explicitly link into those outcomes and show how the NHS will contribute to achieving overall objectives.

As in previous years, NHS boards will be publicly held to account on their 2007-08 performance through the annual review process, which is chaired by the Cabinet Secretary for Health and Wellbeing. I can advise the committee that, in addition, we intend to publish a new annual report on the NHS in Scotland during 2008. It will set out an assessment of overall performance in a concise and accessible way. The report will draw together data on boards' performance against all HEAT targets, and it will provide information on progress, related developments, costs, output and quality in a publicly accessible form.

In conclusion, although the NHS has made good progress, there is obviously still much to be done in this 60th anniversary year of the NHS to improve health, to tackle inequalities and to improve health care in Scotland. I am confident that the strategy that we have set out in "Better Health, Better Care" and the supporting set of priorities captured in the HEAT framework and through our local delivery planning system provide a sound basis for further progress.

I hope that my short summary has been useful to the committee in setting the context. I will be happy to answer any questions.

The Convener: Thank you very much. We start with questions from Jim Hume.

Jim Hume: You have probably covered the two points that I wanted to ask about, Dr Woods. The NHS has previously not published annual reports on finances or performance. Will you clarify that reports will be published on not just NHS performance, but finances? Will you also clarify that the new HEAT targets will match the Government's targets, including those on cancer, smoking and teenage pregnancies?

Kevin Woods: Yes, I am happy to do so. You have described our ambition—that is exactly what we want to do.

Jim Hume: Ambition?

Kevin Woods: Our intent—that is what we are going to do.

Jim Hume: The word ambition implies something slightly different.

Kevin Woods: If ambition is the wrong word to describe a determination to do something, forgive me. We are going to do it.

Jim Hume: We are all ambitious, but we do not always achieve our ambitions. Thank you.

George Foulkes: This is a much more constructive issue than the one we were talking about previously. What are you doing to ensure that the NHS gets best value? How do you compare the NHS in Scotland with that south of the border and with continental European countries?

Kevin Woods: We look closely at how health care policies are developing throughout the world; we do not limit ourselves to a neighbouring country. We are interested in developments in other parts of the United Kingdom, Europe and beyond. It is fair to say that we take cognisance of what is going on.

Of course, one has to be careful about comparisons, as they can be exceptionally difficult to construct. If I may, I will illustrate that, and then I will ask Alex Smith to comment on best value, which we embrace, and locate that within the context of a programme that we are developing on efficiency and productivity. John Connaghan might have something to say about that.

There have been comments made that cancer survival rates in Scotland are not as good as they are in other European countries. However, the more detailed work that has been published demonstrates that cancer survival rates in Scotland compare very well with those in many other countries. What was being talked about was partly a consequence of comparing different measurement systems as used in different countries. As it happens, Scotland has a very good system of measuring cancer and cancer survival rates, which is based on very good cancer registries and the work of the Information Services Division. The point is that we look closely at experience elsewhere. We are not at all complacent—we are very proactive—but we have to be careful about comparative data.

Mr Smith might want to say something about best value, and then Mr Connaghan can talk about efficiency and productivity.

Alex Smith: The NHS embraces best value and seeks continuous improvement—we touched on that earlier today—but it is sometimes quite challenging. Audit Scotland has examined best value in the NHS and the committee will have seen the report, which was quite encouraging. In

the NHS, it is our efficiency and value for money that demonstrate best value, but it was important to say that we do business in the context of continuous improvement. The NHS has achieved efficiency and we continue to report well on that—the report before us confirms that. John Connaghan will want to extend that into benchmarking the other work that we do.

John Connaghan (Scottish Government Health Delivery Directorate): I will say a word or two about the three key components of best value, continuous improvement and redesign.

On the support that we give to the service for redesign and continuous improvement, we do, indeed, attempt to import the best from south of the border, other countries and from within the NHS. Many good things are happening up and down the country.

From time to time, we publish good case studies and "Delivering Better Health, Better Care Through Continuous Improvement" is one of the most recent. It gives an idea of some of the national programmes that we have running and of other things such as the work of the unscheduled care collaborative programme. The document contains 47 examples of good work being done in Scotland.

Benchmarking is also important because it allows us to employ metrics and measurements, not just within the NHS in Scotland, but outside the NHS, although, as Dr Woods said, we need to be careful about that. In the past year, we have published a major report on theatres and one on mental health. I am not aware of any other publication in the UK and—I think—Europe that examines mental health efficiency and productivity benchmarking. We expect great things to come from the benchmarking programme, and we intend to roll out more reports during the next year or two.

The last strand is where we need to stitch all the individual programmes together on a whole-system basis to gain an overview and determine whether the programmes are working. That is why we recently took the opportunity to establish a national group that will concern itself with national strategy on productivity, efficiency and best value and ensure that the proper support is available throughout the NHS.

George Foulkes: The briefing that we had from NHS Lothian mentioned that it has worked with GE Healthcare Ltd on the kaizen process—is that right?

Kevin Woods: Yes—the kaizen blitz.

George Foulkes: That is right. The process involved team working. We were told that, by bringing together everyone in the team from the porter right up to the consultant—I should not say "right up"; I mean "including"—they were able to increase productivity substantially. What are you doing to develop that work in other areas of activity and other parts of Scotland?

Kevin Woods: The programme that you mention is an interesting one. We have similar programmes in most other health boards. We have spent quite a lot of time trying to build capacity within NHS boards for them to undertake similar work. There are different approaches, and that is just one example. Nonetheless, we are interested in it. We had some presentations about such examples to disseminate that learning to all NHS chairs. In late June, we will hold our annual NHS conference, which is an opportunity for people to talk about such improvement experiences and share them.

Mr Connaghan might want to elaborate, but I will say one other thing about best value, efficiency and productivity. In 2006-07, we had an efficient government savings target of £353 million. I am pleased to say that we surpassed that target. We delivered savings of £358 million through our efficient government programmes. That performance has carried on into 2007-08. Indeed, our performance in the current financial year might be slightly better. There will be a formal report on that in due course. We take efficiency, productivity, efficient government targets, redesign and continuous improvement seriously.

The Convener: Sorry—what is the figure for the savings that you achieved for 2006-07?

Kevin Woods: It is £358 million. I think that the figure is stated at the back of the Auditor General's report

The Convener: Yes. And you expect to surpass that in the current year.

Kevin Woods: I do not know whether Mr Smith can tell us that.

Alex Smith: The target for the three years to the conclusion of 2007-08 is £531 million. That will be exceeded by as much as £80 million. However, that is a projection at the moment. The figures have not been published.

The Convener: But the target will be exceeded.

Alex Smith: We have exceeded it already and we believe that we will exceed it further.

George Foulkes: How does your work fit into the new national performance framework for the Government as a whole?

Kevin Woods: We will give you a more detailed note on that, because it is difficult to explain, but as I tried to suggest, we have tried to ensure that there is effective alignment between the specific targets that we have in the NHS and the 45 indicators and 15 national outcomes, so that we

can be clear about what contribution the health service will make alongside the contribution of other parts of the public sector.

You will find a description of the system in the information that was published at the time of the spending review. What we are doing underpins that. We have thought through the connections between the specific targets and the content of the framework.

11:30

Murdo Fraser: In paragraph 59 of his report, the Auditor General made the case that, despite a drive for service redesign to shift the balance of care, there has been no change in the balance of funding between acute, community and primary care services during the past three years. Dr Woods, are you concerned by that finding? What steps is the Government taking to try to ensure that boards shift funding to community and primary care services?

Kevin Woods: I will make a number of points. First, the current means of measuring progress on the objective are not adequate. We need to do more on that. That is why we are developing a new approach to measuring performance and achievement against the policy. Forgive me if this is a bit detailed. We have been impressed by work in NHS Highland on what its board calls the "cost cube", which is a way of capturing financial spending and performance activity by programmes of spend. It is interesting that in his report the Auditor General gave an example of the use of programme budgeting in a primary care trust in England. The cost cube model takes that approach but goes beyond it and disaggregates the spend by community health partnership. It creates a method whereby we can analyse spend by programme and place and we can generate the detailed information that is needed if we are to discuss how services might be changed and what such change would mean for resource and activity shift.

The work originated in NHS Highland, as I said, but we are working with colleagues in other parts of the health service to develop the approach, which will give us a much better method of tracking the policy's achievements. The current instruments do not provide the degree of detail that we need, which is why we have embarked on the development work.

Secondly, three years is a short time for such significant change. We always conceived of the policy as a long-term shift. At the time of the national service framework, we talked about a 10-year programme. That is pertinent, because if we cast our minds back, it is clear to us that there has been significant transformation from institutional care to much more community-orientated services for people with learning disabilities and mental illness. That transformation took at least a decade to achieve.

There are signs of progress. The Auditor General's report, "Managing long-term conditions", about which we have corresponded, raised issues to do with progress in the area, which we fully accept. We are trying to use the opportunities that are presented by, for example, managed clinical networks and our work on risk prediction to accelerate the programme.

Lastly, but by no means least, it is important that we build on the successful introduction of community health partnerships, which are an essential building block for the policy. I note that the Auditor General said that until the end of 2006-07 we were getting the infrastructure in place and that we need to move on and take advantage of the organisational arrangements to secure benefits for patients. Considerable benefits have already been achieved. For example, there has been much progress throughout Scotland on diabetes.

I apologise for the length of my answer, but we are talking about a pretty big policy area.

The Convener: Can I ask a supplementary? Do you still have concerns about the amount that the NHS is having to spend on bedblocking?

Kevin Woods: We refer to delayed discharges, of course. Traditionally, we have spent about £30 million per annum on delayed discharges. The very good news is that the data that were published at the end of January recorded the lowest ever number of people whose discharge had been delayed for more than six weeks. Our target is to reduce that figure to zero by the end of this month. There is a period in which the data must catch up with what is happening on the ground. We are encouraged by the progress that we have made in that regard. For the moment, we are content with the resource that has been allocated to achieve that.

Stuart McMillan: How is the NHS using data on the causes of mortality in deprived communities to address health inequalities?

Kevin Woods: The adverse consequences of deprivation for the health of people in Scotland form one of our key concerns. The data that are presented in the overview report give a high-level picture, which shows that although health in Scotland is improving at a good rate, there are still some important inequalities that we need to address.

I will illustrate the connection between those two points by citing the example of coronary heart disease, which is one of our major killers in

Scotland. In 1991, the death rate in the most deprived communities was 205 per 100,000 of population. By 2006, the death rate in the equivalent most deprived population had declined to 90 per 100,000, which is a highly significant reduction. Through our policy, we want to accelerate the rate of reduction in mortality in the most deprived communities. The ministerial task force on health inequalities is considering that issue and I notice that, today, the Health and Sport Committee is taking evidence on what some of the appropriate policies might be in that regard.

I will focus on two such policies. One is about reducing risk factors, which means addressing issues such as alcohol consumption, diet, exercise and smoking—which remains an issue for us. It also means doing more to ensure that people who can benefit from modern therapies get access to them. In that regard, our keep well initiative, which we run as part of what we refer to as our anticipatory care programme, is showing extremely encouraging results in taking health assessments and subsequent treatment to parts of our population with whom, traditionally, it has not always been possible to engage in quite the way that we would have wanted. There are some excellent examples of the operation of those projects in different parts of Scotland.

That was another lengthy answer, but addressing health inequalities is central to our work, which is driven by our analysis of the data and what the evidence tells us about what works.

Stuart McMillan: Paragraph 13 of the report says:

"Mortality rates from chronic liver disease have also risen over the last 20 years".

In your letter to the committee of 15 February, you said that, as part of the current spending review, £20 million is to be spent on reducing the harm that is done by alcohol misuse. Do you have any details on how that money will be used?

Kevin Woods: The alcohol problem is a serious issue for Scotland. The rising trend in consumption and the adverse health consequences of that have been well documented. I believe that the chief medical officer has spoken about that in various places at various times, and the point is also made in exhibit 5 in the Auditor General's report.

The total budget proposed in the spending review to tackle the alcohol problem is £85 million over three years. We will set out much fuller details of the actions that we intend to take in a document that we intend to publish in late spring or early summer. It will set out the Government's plans for tackling the adverse consequences of excessive alcohol consumption.

One area that we are particularly interested in—and one intervention that the evidence suggests is effective—is known as brief intervention in primary care settings. It has emerged from the work of professionals in Scotland, and it involves taking the opportunity to raise issues of alcohol consumption in the primary care context. We will want to do that, but we are planning also to invest in additional nurses working on alcohol issues in primary and acute care settings. The full detail will be published in the plan.

Stuart McMillan: We hope that the £85 million will go some way to reducing the levels of chronic liver disease shown in the statistics in exhibit 5. When we consider the number of deprived communities in Scotland, alcohol is a major issue that needs to be addressed.

Kevin Woods: I agree, and the policies that we are pursuing beyond alcohol to tackle the adverse consequences of deprivation on health will also make a contribution. We often talk about a complex of issues—not just alcohol but diet, exercise and smoking. We have a range of initiatives that are increasingly designed to provide support to deprived populations.

Stuart McMillan: There was a marked rise in drug-related deaths between 2005 and 2006. Can you shed any light on why that might have been the case?

Kevin Woods: I am not sure that I can point to a single reason. If it would help, I will be happy to investigate whether we could submit a more detailed note on the issue.

We will set out the Government's plans to address drug abuse later in the year, and we have already identified in "Better Health, Better Care" some of the key themes that we will aim to address. They include improving our approach to drugs education and information, better treatment for drug abusers, better help for children whose parents are substance abusers, and better enforcement. We are backing the initiatives with additional resources—about £94 million for treatment and rehabilitation over the spending review period. Again, we will set out the details later.

On the specific concern that was raised by Stuart McMillan, I would rather send the committee a more detailed note on the causes, if we understand them, of the increase in drug-related deaths.

The Convener: I will bring us back to mortality and deprivation and some of the things that you have outlined should be done and, indeed, have been done. Should more be spent on health in deprived areas per head of the population?

11:45

Kevin Woods: That is our policy. The resource allocation framework that we use for NHS boards includes a specific adjustment to distribution of resources to take account of that. Beyond that, in many of the policies that we deploy in relation to smoking, alcohol, drugs and so on, we recognise that there are additional needs in deprived areas. The short answer is yes.

The Convener: The latest resource allocation has just been made. Was it based on spending more per head of population in areas of deprivation?

Kevin Woods: The allocation for 2008-09 is based on the Arbuthnott formula, which includes a specific adjustment for what is known as morbidity and life circumstances, so the answer is yes. Deprivation is one important factor in the formula—there are others.

The Convener: Was an adjustment recently made to resources that reflected population growth rather than deprivation and mortality?

Kevin Woods: Mr Smith might want to comment on that. I do not know whether you are talking about the review of the resource allocation formula, which was carried out by the NHS Scotland resource allocation committee, or NRAC. That committee was chaired by Dr Karen Facey and ministers have just accepted its recommendations. The formula operates by combining a number of adjustments that are based on population. The starting point is population, and adjustments are made to take account of morbidity, life circumstances and excess costs. In the past, Lord Foulkes has asked me about allocations to rural health boards and the extent to which we take account of remoteness and so on. We put all those factors into the formula and the result is the allocations that are made. I hope that that answers the question.

The Convener: Okay. I can pursue that elsewhere.

Willie Coffey: I have some questions on cost pressures and provision for negligence pay-outs within the service. I understand that the NHS set aside £208 million for clinical negligence pay-outs in 2006-07, but the actual amount that was paid out in that year was £23 million. In itself, that sum is pretty high compared with the 10-year average, but it seems that a huge contingency is set aside that is not used or required. How does that pass the test of best value? Could some of that money be reinvested in the service?

Kevin Woods: I ask Mr Smith to comment on that.

Alex Smith: Ideally that would be the case, but under the accounting regulations, we have to make provision where we believe that sufficient risk has been identified and can be quantified. That is what we have done. The position is quite volatile and the provisions and the actual settlements vary. Willie Coffey is right to ask why we sit on such provision when, in a better situation, the money would be deployed for direct patient care. However, while significant risk exists, it is required that we make proper provision for it.

In the long term, we can address the matter by improving the quality of our services and reducing the risk in how we deliver them. That is what we are trying to do.

Willie Coffey: Audit Scotland highlighted the issue in a report in 2000 and I understand that an indemnity scheme was devised at that time. I think that it is called the clinical negligence and other risks scheme, or CNORIS. However, it seems to me that nothing has changed in the assessment of risk, and that huge amounts of money that could be used to deliver better services are not being used. Notwithstanding what you said, how on earth can we be in a position in which up to £180 million is set aside this year and not being used? The pay-out has never peaked beyond £23 million, but nearly £200 million has been set aside. I cannot understand how that represents prudent financial planning.

Alex Smith: I have tried to respond to your challenge, and I do not disagree with your position. In an ideal world we would not be in that situation, but it is difficult for us not to make that assessment of risk. We would be criticised if we allowed ourselves to reach settlements that exceeded provision that we had made—that can happen—and we would be in a much more difficult place.

We have tried to spread the load by examining how we approach the matter. We continue to consider the issue, which I am sure will feature again.

The Convener: What happens to the money at year-end?

Alex Smith: It is within the provision—it is income expenditure, on which we produce our accounts, in resource accounting terms. That is how we are judged. Cash does not actually leave—

The Convener: No, but does the notional allocation, or whatever you call it, go back to the central budget?

Alex Smith: That provision is there, so it rests and the outturn remains the same.

Kevin Woods: I make two additional points. First, the data in the Auditor General's report indicated that there is some volatility annually in the amount that we pay out, which is to do with the

nature of the cases. I think that there was an increase in 2000.

Secondly, it is Government policy to introduce a no-fault compensation scheme. We will address the matter later this year and during the remainder of the parliamentary session.

Andrew Welsh: How sustainable are the financial positions of boards that rely on non-recurrent income, given that boards are no longer allowed to use capital funding to cover gaps?

Kevin Woods: As I said in my introductory remarks, we are pleased by the progress that has been made in reducing reliance on non-recurring provision. In past years, boards were sometimes able to make capital-to-revenue transfers, to secure their in-year position. We have been trying to reduce such activity. Alex Smith will correct me if I am wrong, but I think that for 2007-08 our forecast position on the use of non-recurring resources is about 0.2 per cent. That means that we are getting close to a situation in which many boards are, in effect, in recurring balance, which is an important position to reach. We want boards' financial plans to contain evidence that convinces us that they can sustain that position and meet their efficiency targets. As the committee knows, one board in particular presents issues in respect of achieving that. Mr Smith might want to elaborate on what I have said.

Alex Smith: I do not have much to add. We are in a much better position than we have been in previously. That has not happened without considerable effort being made to ensure that we find other ways of sustaining services, through service improvement, change and so on, instead of relying on opportunistic gains. Of course, such opportunistic gains will no longer be made, because profits on sale of assets will no longer be available to use in that way. There will always be sources of non-recurring income, through refunds for example, but such income will be much less in the future, so our ability to use it will diminish. The good news, which is backed up by evidence, is that we no longer rely significantly on such income. That is how we intend to continue.

Andrew Welsh: How does Western Isles NHS Board fit into the picture?

Kevin Woods: That is the board to which I just referred. If you can bear the repetition, I will say that our objectives are to achieve in-year balance, to secure a recurring position as quickly as we can, and to address the accumulated deficit. If we were convinced that the board had a set of coherent plans, we would think about the approach to the accumulated deficit, but our approach will probably be based on brokerage.

The Convener: That concludes this part of the meeting. I thank Dr Woods for his evidence on two lengthy agenda items. Your contribution and that of your colleague have helped us.

11:55

Meeting suspended.

12:01

On resuming—

Accounts Commission

The Convener: We will receive a briefing on the overview of local authority audits in 2007. We have with us Professor John Baillie, chair of the Accounts Commission, Caroline Gardner, the deputy auditor general and controller of audit, and Gordon Smail, the portfolio manager of local government audit in Scotland.

Professor Baillie, would you like to make an introductory statement?

Professor John Baillie (Accounts Commission): If I may, convener; thank you.

I thank the committee for inviting us to give a briefing on our overview report. Each year, the Accounts Commission requests a report from Audit Scotland on the main issues arising from the audit of Scottish local authorities. The report covers the 32 councils and the 41 related local authority organisations, such as the police and fire boards. Together, those bodies spend about £16 billion each year.

The overview report brings together all aspects of the commission's work—the financial and governance audits, the audits of best value and community planning, the statutory performance indicators, and our in-depth studies of services—and it draws on all those to highlight strengths and areas that require improvement. This year, the report highlights progress in services and the need for increased focus on key areas to meet the challenges that are coming. I will raise six key messages and then finish by raising a further three points about activities within the Accounts Commission that are of some relevance.

The first of the six key messages is that performance has improved in some areas, such as council tax collection and waste recycling. The amount of council tax due and collected in the year 2006-07 was just under 94 per cent, which is an increase of 1 per cent on the previous year. That sounds like a small increase, but the councils are already collecting at that level, so it gets more difficult to improve each year, although they are continuing to do so. On waste recycled or composted, the percentage was 28.4 per cent last year, which again shows a steady increase over the previous two years and, indeed, over the past five years.

Secondly, last year we highlighted the new voting system and the multi-member wards. Early signs are that the transition has gone well. Almost half of Scotland's 1,222 councillors are new and are bringing fresh ideas and impetus, but they need to be supported in their new and developing roles, especially in areas such as strategic leadership and scrutiny.

The third key message relates to performance management. Councils need to improve significantly, to enable them to show that they are improving services to local people and to help members in their scrutiny function. Such improvement is essential to support the shift towards the outcomes-based approach that is set out in the concordat between the Scottish Government and the Convention of Scottish Local Authorities.

The fourth key message is that financial accounting and reporting remain generally sound. Audit qualifications are rare—only one was made last year, in relation to Shetland Islands Council. The commission's drive for better information about reserves has been quite successful. All councils have put in place policies that set out why reserves are held and their intended use. The amounts that are held in reserves increased somewhat in the year to March 2007. Unallocated reserves—that is, the part of the total reserves that is held for unforeseen circumstances and contingencies—represented less than 2 per cent of the net cost of services. It remains our view that it is for councils to decide the amount to be held, taking account of local circumstances.

The fifth point is about pressure on finances, for example as a result of the implementation of single status agreements and above-inflation increases in energy costs. The existence of such pressures underlines the importance of robust long-term planning that is risk based and sustainable.

The sixth and final key message is that councils need to demonstrate the net benefits from community planning and sharing business support services.

I will make three points about Accounts Commission activities. First, we publish joint study reports with Audit Scotland from time to time—two recent reports were on sustainable waste management and free personal care. Such reports are examples of our cross-cutting work with the Auditor General for Scotland on policy and service delivery. We jointly consider major policy matters, which affect local government and other parts of the public sector, including the Scottish Government. The work shows how the Accounts Commission, the Auditor General and the Audit Committee can work together.

Secondly, the commission welcomes Audit Scotland's work with the inspectorates and other scrutiny agencies to minimise duplication and reduce the burden on organisations that are audited. "The Crerar review: the report of the independent review of regulation, audit, inspection

and complaints handling of public services in Scotland" highlighted the need for more streamlined scrutiny, based on robust self-assessment and a sharper focus on the needs of service users. We support that aim and welcome the role that is envisaged for the Accounts Commission in realising it.

Thirdly, we have been reviewing our programme on best value and how it contributes to better governance, in advance of the next round of audits, which will start in mid-2009. The work should ensure that our processes remain fit for purpose and continue to contribute to improving services and governance in local government.

In aggregate, the Accounts Commission is encouraged by the progress that councils are making and looks forward to working with councils, through audit, to deliver further improvements.

The Convener: Thank you. In the past, concern was expressed about specific councils. In some cases accounts were not signed off. Are any councils currently in that category?

Professor Baillie: Are you asking whether any councils have not had their accounts signed off?

The Convener: Yes, and whether any councils are giving cause for concern.

Professor Baillie: No councils are not having their accounts signed off. In the past 18 months or two years we have been concerned about several councils, including Inverclyde Council and West Dunbartonshire Council. We have been back to both councils and issued reports on them, and there are signs of improvement. We have scheduled return visits—some 18 months from now, in the case of West Dunbartonshire Council.

The Convener: Beyond those two councils, are there any others that give any cause for concern?

Professor Baillie: We are talking about a wide spectrum of councils. There are always issues in any council, but those are the two councils that I would highlight. I ask Caroline Gardner to comment further.

Caroline Gardner (Audit Scotland): All I would add is that we are aware, as we highlight in the overview report, that there are long-term financial pressures in a number of councils, examples of which are single status and equal pay, and the long-term asset investment plans that are required to meet the Scottish housing quality standard. We continue to monitor how those pressures play out for particular councils and the extent to which councils plan over the medium term rather than just year on year so that we can ensure that they have a proper financial strategy in place to meet those pressures, as far as they can.

The Convener: I have a specific question about what you describe as reserves or balances, which you indicated would be a matter for each authority. From an accounting perspective, are you satisfied that all local authorities have sufficient reserves or balances?

Professor Baillie: Each council's reserves and balances are a matter for it to evaluate in terms of its spending plans. Perhaps I could answer the question in two parts. First, I reiterate the point that Caroline Gardner has just made: we are extremely keen that councils develop a long-term planning strategy for finance and for other resources, including buildings and people. We stress that key point time and again—if members can forgive the repetition, we will probably do so several times today. We are talking about a snapshot of councils' reserves as at March 2007. I believe that, in the meantime, the councils that had no reserves to speak of at that time have been working to increase them.

Secondly, the allocation of reserves for a specific purpose is good and well, but I and—I think—my colleagues would be concerned if unallocated reserves were used to fund day-to-day expenditure on service delivery, because that would be an opportunistic use of non-recurring funds. That is not a desirable way of funding regular service delivery.

The Convener: Would you comment on that if you saw it happening?

Professor Baillie: If it were material, we would be bound to.

Murdo Fraser: Good afternoon. I want to ask you about your comments on council tax collection rates. It is encouraging that they have increased year on year. If I read the figures correctly, the collection rate for 2006-07 was 93.8 per cent. Does the Accounts Commission have a target figure for council tax collection that it wants councils to strive to meet?

Professor Baillie: We do not have a specific target figure of less than 100 per cent.

Murdo Fraser: If you do not have a target, how do you assess councils' performance on council tax collection? How do you decide whether the rate—whether it is 93 per cent or whatever—is satisfactory, given that in the real world a collection rate of 100 per cent will never be achieved?

Professor Baillie: Our view is based on tracking the trend, which is getting better every year. Although the fact that the harder core of non-payers is being confronted would lead us to expect and hope for continuing improvement, we realise that we are not dealing with an even incline—the hill gets steeper the further up it we go.

Murdo Fraser: Yes, I can see that, but in what circumstances would a council's accounts cause you concern and lead you to comment on its council tax collection rate?

Professor Baillie: It would give us concern if we saw council tax collection rates falling rather than climbing.

Murdo Fraser: As long as they keep going up, you will be content.

Professor Baillie: As long as they keep going up and there is no reason to think that they will not continue to go up, we will keep an eye on the situation. I would never like to describe an auditor as being "content"—it is not a word that we use.

12:15

Andrew Welsh: Given the long-standing drive for improvement and more professionalism, I was a bit perturbed to note that your report states:

"Councils still have a long way to go in producing good quality management information to inform decision-making. The lack of consistent and robust performance information limits an in-depth analysis of service performance in councils."

How widespread is that problem and how curable is it?

Professor Baillie: We are quite concerned about the need to develop good, robust performance management and information to support it. That is what we strive for, and our report is peppered with that sentiment. Caroline Gardner will add to that.

Caroline Gardner: We are getting a clearer and clearer picture of what is happening in that area through the round of best-value audits that will come to a conclusion in the next few months. It is fair to say that some councils do it very well indeed. West Lothian Council is an example. It has a strong performance management system, it knows what it is trying to achieve, and it regularly tracks how it is doing. Other councils are much less good, particularly in some of the more complex areas around social work services and outcomes for children and families, where a range of complex issues come together. The best-value regime is clear that councils should be able to do it, and we are pushing improvement through the round of audits.

The focus is changing for two reasons. First, it is increasingly important for information to be available to councillors so that they can exercise their scrutiny role properly, monitor how performance is improving, and make the difficult choices that have to be made. Secondly, the shift to an outcomes-based approach between the Scottish Government and councils has heightened the premium on councils' having good information about their priorities and how they change in time.

George Foulkes: Convener, I found some of Professor Baillie's comments a bit out of touch with the reality on the ground.

Professor Baillie, you said that councils seem to be settling down. The implication is that everything is going well, but in Edinburgh we have cuts to nurseries and home-help services—90-year-olds are having their home-help services reduced. Bus fares will have to go up as a result of the great concordat that everyone keeps talking about, and concessionary fares are under threat. The council might have to consider reducing access to concessionary fares.

In another area that I know well—South Ayrshire—public toilets in villages are being closed down and kids' play and recreation areas are under threat. That is the reality on the ground. Councils—particularly those where no party has overall control—are not considering best value, efficiency savings and the other things you talked about; they are cutting services for young people and the elderly. Is that not the reality on the ground?

Professor Baillie: There are instances of that, and you quoted some of them, but our view is that councils are making progress in specific areas. The ones that I mentioned are the ones that I wanted to highlight, such as the council tax and waste recycling.

It is clear that councils are facing financial pressures for a variety of reasons, and we highlight that in our report. There is scope to meet those financial pressures, but it is limited too, so councils will have to make difficult choices. We state that in our report as well. I am not sure that our report is at variance with what you say. It is a question of emphasis.

George Foulkes: Instead of doing the things that you suggest, such as saving money by improving efficiency, councils are cutting services for vulnerable people. That is the reality on the ground for the councils in Edinburgh and South Ayrshire, which are the two that I know particularly well.

Professor Baillie: Is it fair to argue that cutting services and achieving efficiency gains are not mutually exclusive?

George Foulkes: It is not wonderful for the 90-year-old who is not getting a home help or the parents whose kid is not getting a nursery place.

Professor Baillie: I accept that.

The Convener: I think that we are starting to intrude into the political.

George Foulkes: Am I not allowed to be political?

The Convener: Not with Professor Baillie. He is not responsible for political decisions.

George Foulkes: Well, he ought to know about these things.

Professor Baillie, I have another question on West Lothian Council, which, again, I know something about. You talked about the scrutiny arrangements. Can you have a look at West Lothian Council? The controlling group there not only forms the cabinet, but chairs the scrutiny committees. Is that not at variance with normal, proper procedures for running councils?

Professor Baillie: Caroline Gardner was closely involved in the writing of the initial report, so I will ask her to comment on that.

Caroline Gardner: I can assure Lord Foulkes and other members that, as part of the work on best value, we will look at how scrutiny arrangements work in all councils. Lord Foulkes is right that the change in the political administration in many councils last May led to a change in the arrangements that were in place. Our auditors will go back to look at how they are working in practice now, to ensure that they match up to good practice guidance.

George Foulkes: Will you start with West Lothian Council?

Caroline Gardner: We will ensure that we focus on where the risks are highest.

Willie Coffey: It is funny that, notwithstanding George Foulkes's comments, councils have been delighted to sign up to the historic concordat that he mentioned.

Professor Baillie, I would like you to clarify a couple of issues in the general fund picture. If councils' general performances are improving, when is it appropriate for you or others to look at councils' levels of contingency reserves? You said that, as a percentage of net costs, 2 per cent seems reasonable, but as performance improves and mechanisms such as the prudential borrowing framework become available to more councils—that has certainly been the case over the past few years—when does it become appropriate to revise the assessment of contingency reserves so that councils do not sit on huge amounts of uncommitted balances that could be reinvested in public services?

Professor Baillie: As you will know, the reserves at the point that we are talking about, which was last March, represented a return to approximately where they had been two years prior to that. It is fundamentally a matter for councils to balance the reserves with all their other priorities and needs. Our concern would be that the reserves were being used for regular service delivery, which would not be the way to run a council. If reserves are allocated to specific purposes, that is fine.

What it comes to is the extent to which long-term planning—I am sorry that I am using that term again—is adequate to enable councils to anticipate, as best they can, all the costs that will be incurred in the near, the middle and the far future. A good example of where costs were not particularly well anticipated was the single-status agreements. If councils can identify their costs better, there will be less need to have a large amount in unallocated contingency reserves.

Willie Coffey: Can you envisage our getting to a point at which you would advise dropping the contingency indicator from 2 per cent to 1.5 per cent? The effect of such a drop might be that several hundred million pounds could be spent or reinvested.

Professor Baillie: It is a difficult matter to talk about in the round on a national basis. The 2 per cent figure represents only a national average for information. I am sorry to be stubborn on this point, but we would have to look at each council individually and consider all the circumstances and priorities, and the needs of the citizen, before we could take a view on the level of the contingency reserve.

I did not fully answer your first question about borrowing. Councils can borrow, but they must repay that borrowing and, in the meantime, they will incur interest costs—there is no easy answer.

Jim Hume: I will refrain from being political, except to say that exhibit 1 in the report shows that councils have a far healthier make-up now, Mr Foulkes.

Professor Baillie: No comment.

Jim Hume: I am interested in something that I have not seen in the audit report, which is whether we are seeing council-led councils or official-led councils. Is there room in your audit to examine that, Professor Baillie?

Professor Baillie: One of the factors that we look for in our best-value audits is how much councillors are engaged in the entire process, from governance right through to service delivery. It is no surprise to find that the councils that are considered the better performing have councillors who are ambitious and focused on strategy and leadership. Those councils also have open and transparent meetings and effective scrutiny processes. When we consider best value, those are three factors, among many others, that we study in terms of councillor engagement.

Jim Hume: Is the situation improving? Are councils engaging more, or are we at the status quo?

Professor Baillie: The general answer to whether the situation is improving is probably yes, but there are, of course, exceptions. I am sounding slightly hesitant because we have just had the 2007 council elections and things are taking a little time to bed down. However, the transition appears to be working rather well.

Stuart McMillan: Morale is discussed under point 115 in the report. The word "morale" can be a bit of a catch-all, if we bear in mind some of the questions that we have put to you this afternoon. Is there any way of highlighting the benefit of there being positive morale in a council area? Inverclyde Council and West Dunbartonshire Council have been mentioned. I know a wee bit about the Inverclyde area. If there are cost pressures, they can adversely affect productivity, and morale will be a lot lower as well.

Professor Baillie: I will give a general answer and then ask Gordon Smail to flesh it out a bit. Staff morale is very important. The best-value process aims to examine the extent to which officers are linked into the entire process—especially senior officers.

One particular issue may be influencing morale in some quarters—the time it is taking to negotiate and complete agreements on single status. That appears to be sapping morale, although the evidence is rather anecdotal.

Gordon Smail (Accounts Commission): I do not have much to add to that. A purpose of the overview report is to bring together all the information. Staff morale is one of the things we consider in our best-value audits. Another purpose of the report is to try to identify where things that are going well might be at risk in future. The best-value reports that we have had so far have suggested that staff morale is generally good across councils—although, as you would imagine, there is wide variation. However, there are risks, especially relating to employment costs.

George Foulkes: Pages 36 and 37 of the report mention free personal and nursing care. At a previous meeting, we felt that a large problem was looming because of the growth in demand. Have you looked into variations between local authorities? At a recent meeting, we received a report on substantial variations between local authorities' provision of free personal and nursing care.

Caroline Gardner: The report that we refer to is the joint report that was prepared for the Accounts Commission and the Auditor General. Each council has received feedback on the Scottish average and on where it sits in relation to the other 31 councils. Our auditors will keep an eye on the issue as part of their continuing audit work. As Mr Foulkes suggests, it has been identified as a potential financial risk. There is also a risk to the people who rely on the services. We are all waiting for Lord Sutherland's review of the policy, and we will see how people respond to it and plan ahead.

George Foulkes: Will that report come here and to the Accounts Commission?

Caroline Gardner: That is right.

Willie Coffey: Part 5 of the report is on outlook and outcomes. How are councils developing their ideas on measuring the impact and outcomes of public services? Hitherto, councils have been good at saying what they have done, but perhaps some work has been needed to describe the benefits for the public of what they have done. How are councils progressing in that regard?

12:30

Professor Baillie: Again, I will say a few words by way of general introduction and then, for a good reason, ask Caroline Gardner to answer that.

It is fair to say that councils are in the early stages of developing the outcome measurements. The good reason for that is that the outcome measurements are still being developed centrally as well; there is no point in reinventing the wheel several times over.

Caroline Gardner: It might be useful for us to take a step back and think back to the report on community planning that the Accounts Commission and the Auditor General published a couple of years ago. It tried to get at how councils work with their partners to improve outcomes for their communities and the various groups within them rather than just manage their traditional services of social work, schools and so on. At that stage, the recommendations centred on the need for councils to move on from the processes for working with their partners to setting the goals that they wanted to achieve and to demonstrating that they were achieving them. The outcome agreements are another step on from that requirement.

We are all aware that most of the things that matter to communities cannot be delivered by councils on their own, any more than they can be delivered by health boards on their own or the police on their own. If the outcome agreements work well—there is an "if" there because we are all still learning—they should be a good way of ensuring that partners are clear about what they want to achieve together and what the contribution that each of them will make looks like so they can measure progress towards that end. There is a lot of work to do to put the proper underpinning for

that in place. The commission is very conscious that the duties of best value through good performance management and public performance reporting still exist, but we hope that we will see a renewed focus on outcomes for communities by councils and their partners.

The Convener: Thank you, Professor Baillie, Caroline Gardner and Gordon Smail, for your contributions.

12:32

Meeting continued in private until 12:48.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Friday 21 March 2008

PRICES AND SUBSCRIPTION RATES

OFFICIAL REPORT daily editions

Single copies: £5.00
Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75
Annual subscriptions: £150.00

Standing orders will be accepted at Document Supply.

Published in Edinburgh by RR Donnelley and available from:

Blackwell's Bookshop

53 South Bridge
Edinburgh EH1 1YS
0131 622 8222

Blackwell's Bookshops:
243-244 High Holborn
London WC1 7DZ
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh.

Blackwell's Scottish Parliament Documentation Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

Telephone orders and inquiries
0131 622 8283 or
0131 622 8258

Fax orders
0131 557 8149

E-mail orders
business.edinburgh@blackwell.co.uk

Subscriptions & Standing Orders
business.edinburgh@blackwell.co.uk

Scottish Parliament

RNID Typetalk calls welcome on
18001 0131 348 5000
Textphone 0845 270 0152

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers

Printed in Scotland by RR Donnelley